



School Facility Program

# Progress and Expenditure Reporting Guide

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# Section 1 - Reporting Requirements and SFP Audit Overview

## 1.1 OVERVIEW

These progress and expenditure reporting guidelines were developed by the Office of Public School Construction (OPSC) to aid school districts in meeting program reporting requirements for the School Facilities Program (SFP). Under the Leroy F. Greene School Facilities Act of 1998, the State Allocation Board (SAB) is given authority to audit expenditure reports and district records in order to ensure that funds received under this act are expended in accordance with program requirements (as specified in Education Code 17076.10). The OPSC, as the SAB's administrative arm, is charged with conducting SFP progress and expenditure audits. The OPSC's oversight responsibilities focus on verifying that a project funded through the SFP progresses in a timely manner, and that expenditures made by the district comply with the Education Code Sections 17072.35 and 17074.25 and Regulation Sections 1859.77.2 (New Construction) and 1859.79.2 (Modernization).

School districts should be advised that they will need to submit two types of reports regarding funds received through the SFP: a substantial progress report and an expenditure report (as required by Regulation Section 1859.104). The district is required to submit a progress report in the form of the Substantial Progress Checklist (SPC) or narrative due 18 months from the date that any funds were released to the district (12 months from the apportionment date for Environmental Hardship apportionments). The progress report shall include information regarding the progress the district has made towards substantial completion of the project. Additionally, the Form SAB 50-06 and Detailed Listing of Project Expenditures are due one year from the date that any funds were released to the district, or upon completion of the project, whichever occurs first. Subsequent expenditure reports are due annually until the project is complete, at which time the district shall submit a final expenditure report.

SFP Regulation Sections 1859.105, 1859.105.1 and 1859.106 specify that OPSC audit staff review substantial progress reports and expenditure reports submitted by participating districts. All projects will be monitored by the audit staff for timely submittal of substantial progress and expenditure reports. When the Substantial Progress Checklist or Expenditure Report is submitted, a certain percentage of projects will be audited to verify compliance with requirements set forth in Regulation Sections 1859.105 and 1859.106. Furthermore, all Environmental Hardship projects will be reviewed to assure that the district has made progress in acquiring the site in accordance with Regulation Section 1859.105.1 (see Section 2.4 - Environmental Hardship Progress Review for more information).

This guide is essentially divided into two sections: Substantial Progress Audit beginning on page 3 and Expenditure Audit beginning on page 10.



## Section 2 - Substantial Progress Audit

### 2.1 PROGRESS AUDIT REPORTING REQUIREMENTS

Substantial Progress reporting requirements are determined by type and date of apportionments and their subsequent fund releases. A district project may receive various apportionments under the SFP.

There is a Substantial Progress reporting requirement for each separate apportionment that a school district receives. The types of apportionments that a district may receive under the SFP are the following:

- Separate Apportionment for Design Costs
- Separate Apportionment for Site Costs
- Separate Apportionment for Site and Design Costs
- Separate Site Apportionment for Environmental Hardship
- New Construction Adjusted Grant
- Modernization Adjusted Grant

School districts will receive letters from the OPSC reminding them of substantial progress reporting requirements. For all SFP apportionments except Separate Site Apportionments for Environmental Hardships, school districts will receive letters at 12, 15 and 18-month intervals after funds have been released. For Environmental Hardship Projects, the OPSC will send reminder letters to the school district 8, 10 and 12 months after the project's apportionment date.

### 2.2 SEPARATE DESIGN PROGRESS REVIEW

Separate Design funding is available for financial hardship districts that do not have the resources available to meet the minimum requirements to submit a complete adjusted grant application to the OPSC. Once a Separate Design fund release is made for a project, the applicant district has 18 months to submit a complete application package for full project funding. A complete application package consists of a completed Application for Funding (Form SAB 50-04), Department of State Architect (DSA) plans and specifications approval, and California Department of Education (CDE) site and/or plan approval. When the district requests full project funding (called the adjusted grant), this amount is reduced by the separate design apportionment and/or the site apportionment previously made for the project.

Audit staff will notify the district by letter 12, 15 and 18 months after the date of the Separate Design fund release that a complete application package must be submitted within 18 months of the fund release in order to comply with the substantial progress requirements. If the district submits a complete Application for Funding package within the 18-month timeframe, the audit staff will notify the district that substantial progress requirements have been met.

If the district does not have a complete adjusted grant application package on file within 18 months of receiving the Separate Design fund release, the audit staff will determine that substantial progress requirements have not been met. Audit staff will then notify the district that the substantial progress requirement has not been met, and will move forward with appropriate close-out procedures (see Section 2.7 - OPSC Substantial Progress Audit Response for more details).

## **2.3 SEPARATE SITE PROGRESS REVIEW**

Districts that qualify for financial hardship may receive a separate apportionment for site acquisition. The Separate Apportionment for Site allows districts to acquire sites for new construction projects with State funds. When the district is ready to request full new construction funding (or the adjusted grant), the adjusted grant is reduced by the site apportionment previously made for the project. For sites funded under the LPP, the site amount will be offset if the subsequent SFP adjusted grant application was submitted prior to June 26, 2000. Projects that received site funding under the LPP will not have the site amount offset if the adjusted grant application was submitted on or after June 26, 2000.

The district has 18 months from the date of the Separate Site fund release to submit a progress report which demonstrates that substantial progress has been made (see Regulation Section 1859.104(b)). Audit staff will determine whether substantial progress has been made by ensuring that the district has submitted a Substantial Progress Checklist indicating that all of the following have occurred (see Regulation Section 1859.105(b)):

- Final Appraisal of the site
- California Environmental Quality Act (CEQA) certification
- CDE Final Approval of site
- Final escrow instructions or evidence that the district has filed condemnation proceedings and intends to request an order of possession of the site

The OPSC reserves the right to request copies of supporting evidence in order to verify certifications made by the district on the Substantial Progress Checklist. The audit staff will audit a certain percentage of the certifications to ensure compliance with substantial progress requirements

(see Regulation Section 1859.105). Audit staff may request substantiation related to the final appraisal, CEQA compliance (such as State clearinghouse approval letter etc.), and final escrow documentation.

The district will be notified of compliance if the audit staff determines that the district has met the substantial progress requirements. Audit staff will notify the district that it has not met substantial progress requirements if any of the following conditions exist:

- 1) No substantial progress report has been received from the district by the substantial progress reporting deadline (18 months after fund release).
- 2) The Substantial Progress Checklist submitted by the district does not show that substantial progress has been made.
- 3) After an audit of district certifications on the Substantial Progress Checklist, including review of supporting evidence, the audit staff determines that substantial progress has not been made.

Audit staff will notify the district within 60 days of receipt of the Substantial Progress Checklist if the substantial progress requirement has not been met (per Regulation Section 1859.105) and follow through with appropriate action (see Section 2.7 - OPSC Substantial Progress Audit Response for more details).

## **2.4 ENVIRONMENTAL HARDSHIP PROGRESS REVIEW**

Environmental Hardship funding is available when the Department of Toxic Substance Control (DTSC) certifies cleanup of the site will exceed six months and the district meets other program requirements delineated in Regulation Section 1859.75.1. A district may be eligible for an apportionment for Environmental Hardship even if it does not meet the financial hardship criteria. However, districts meeting Regulation Sections 1859.75.1 (Environmental Hardships) and 1859.81 (Financial Hardship criteria) can receive up to 100 percent State funding for their Environmental and Financial Hardship projects.

The district has 12 months from the date of the Environmental Hardship apportionment to submit a substantial progress report which demonstrates that substantial progress has been made (Regulation Section 1859.104(c)). The district may request 1-year extensions from the SAB, provided that the Department of Toxic Substance Control (DTSC) and CDE concur with the district's request. An approved extension request will postpone the deadline for the SAB's substantial progress requirement.

Audit staff will determine whether substantial progress has been made by ensuring that the district has submitted a Substantial Progress Checklist indicating that all of the following have occurred (see Regulation Section 1859.105.1(a)):

- Final Appraisal of the site
- California Environmental Quality Act (CEQA) certification
- CDE Final Approval of site
- Final escrow instructions or evidence that the district has filed condemnation proceedings and intends to request an order of possession of the site

The OPSC reserves the right to request copies of supporting evidence in order to verify certifications made by the district on the Substantial Progress Checklist. The audit staff will perform an in-depth substantial progress audit on a certain percentage of the certifications to ensure compliance with substantial progress requirements (see Regulation Section 1859.105). Audit staff may request substantiation related to the final appraisal, CEQA compliance (such as State clearinghouse approval letter etc.), and final escrow documentation.

The district may request one-year extensions of the Environmental Hardship site apportionment substantial progress deadline as authorized by Education Code Section 17072.13(c)(2) and Regulation Section 1859.105.1(b). Acceptable criteria for approval of an extension are any of the following:

- The district has received letters from the DTSC and the CDE that indicate the agency concurs that the district is making reasonable progress towards acquiring the site.
- Other reasonable evidence of effort the district has made towards acquiring the site has been presented by the district and approved by the SAB (note: this will be handled as a special appeal item).

The district will be notified of compliance if the audit staff determines that the district has met the substantial progress requirements. Audit staff will notify the district that it has not met substantial progress requirements under the following conditions:

- 1) No substantial progress report has been received from the district by the substantial progress reporting deadline (12 months after apportionment).
- 2) The Substantial Progress Checklist submitted by the district does not show that substantial progress has been made.
- 3) After an audit of district certifications on the Substantial Progress Checklist, including review of supporting evidence, the audit staff determines that substantial progress has not been made.



- 4) The district's request for an extension of the Environmental Hardship substantial progress deadline has not been approved, and no subsequent evidence of substantial progress has been received.

Audit staff will notify the district within 60 days of receipt of the Substantial Progress Checklist if the substantial progress requirement has not been met (per Regulation Section 1859.105.1). If audit staff determine that the district has not met substantial reporting requirements, the audit staff will prepare an appropriate audit response and follow through with appropriate action (see Section 2.7 - OPSC Substantial Progress Audit Response for more details).

## **2.5 ADJUSTED GRANT SUBSTANTIAL PROGRESS REVIEW**

The District is required to submit a Substantial Progress Checklist within 18 months of receiving the adjusted grant fund release which constitutes full project funding. This Substantial Progress Checklist provides district representative certifications that one of the following has occurred:

- At least 75% of site development work is complete.
- At least 50% of all construction activity is complete.
- At least 90% of building construction activities are under contract.
- Other satisfactory evidence of circumstances beyond the control of the district that preclude substantial progress being made has been presented and approved by the SAB (note: this will be handled as a special appeal item).

School districts may also submit a notice of completion, final expenditure reports or expenditure reports indicating the project is at least 90 percent complete to fulfill the substantial progress requirement. The OPSC reserves the right to request copies of supporting evidence and perform site visits in order to verify certifications made by the district on the Substantial Progress Checklist. The audit staff will perform an in-depth substantial progress audit on a certain percentage of the certifications to ensure compliance with substantial progress requirements (see Regulation Section 1859.105). As appropriate, audit staff will request contracts, notice of completion, final expenditure reports (if applicable) and other expenditure documents to verify the district's claim of substantial progress.

The district will be notified of compliance if the audit staff determines that the district has met the substantial progress requirements. Audit staff will notify the district that it has not met substantial progress requirements if any of the following conditions exist:

- 1) No substantial progress report has been received from the district by the substantial progress reporting deadline (18 months after fund release).

- 2) The Substantial Progress Checklist submitted by the district does not show that substantial progress has been made.
- 3) After an audit of district certifications on the Substantial Progress Checklist, including review of supporting evidence, the audit staff determines that substantial progress has not been made.

Audit staff will notify the district within 60 days of receipt of the Substantial Progress Checklist if the substantial progress requirement has not been met (per Regulation Section 1859.105). If audit staff determine that the district has not met the substantial reporting requirements, the audit staff will prepare an appropriate audit response and follow through with appropriate action (see Section 2.7 - OPSC Substantial Progress Audit Response for more details).

When submitting the Substantial Progress Checklist, the district may choose to include evidence of circumstances beyond the control of the district that precluded substantial progress from being made (see Regulation Section 1859.105(a)(4)). In this case, the audit staff will review supporting documentation within 60 days and prepare a special item to be presented to the SAB at the next available meeting. The SAB will then determine whether evidence provided by the district shows that circumstances beyond the control of the district served to preclude substantial progress from being made within the 18-month timeframe. If the SAB does not accept the district's documentation of extenuating circumstances, the audit staff will prepare an appropriate audit response and follow through with appropriate action (see Section 2.7 - OPSC Substantial Progress Audit Response for more details).

## **2.6 IN-DEPTH SUBSTANTIAL PROGRESS AUDIT SUMMARY**

A certain percentage of projects subject to substantial progress reporting requirements will be identified for further review in the form of an In-Depth Substantial Progress Audit. For projects with Separate Site and/or Environmental Hardship apportionments, audit staff will verify that site documentation is on file. Required site documentation includes CEQA, appraisal and escrow documentation. If required documentation is not on file, audit staff will request it during the In-Depth Substantial Progress Audit.

The audit findings obtained through the In-Depth Substantial Progress Audit on new construction or modernization adjusted grants will be easier to substantiate with evidence provided by documents such as expenditure invoices and contracts. Once a project is selected for an In-Depth Substantial Progress Audit, the audit staff will gather documentation, such as the SAB Grant Approval Item, project file, fund release documents, and the project's one-year and subsequent expenditure reports. The audit staff may also require that the district submit any additional documentation that will verify the district has made substantial progress, such as copies of contracts, inspector reports, architect certifications, invoices, updated expenditure reports and/or explicatory narratives.

For the purpose of determining whether the substantial progress requirement is met, the substantial progress criteria (as outlined in section 2.5 - Adjusted Grant Substantial Progress Review) is based on the State's and the district's shares of the project, and not necessarily on the total cost of the project, as the size of the construction project may exceed the amount funded through the SFP.

## **2.7 OPSC SUBSTANTIAL PROGRESS AUDIT RESPONSE**

If it has been determined through the Substantial Progress Audit that no substantial progress has been made, or the district has neglected to submit an SPC, the audit staff will take the following steps (per Regulation Section 1859.105):

- Send a letter to the district within 60 days of receipt of the district's Substantial Progress Checklist, or within 60 days of the substantial progress deadline if no Substantial Progress checklist has been received, informing the district that the SAB's substantial progress requirement has not been met.
- Request a final expenditure report from the district.

If the district reports project expenditures within the specified 60 days, an expenditure audit will be performed and the project will be closed to costs incurred. If the district does not submit a Form SAB 50-06 and Detailed Listing of Project Expenditures within 60 days, the project will be rescinded and any funds released to the district, plus any interest accrued on the State's funds, will be returned to the State (Regulation Section 1859.104(c)). The district must submit a warrant for any amount due within 60 days of the project being reduced to costs incurred or the apportionment being rescinded, or the OPSC will begin collection procedures pursuant to Education Code Section 17076.10(c) and pupils assigned to the project will be added back to the district's baseline eligibility based on the expenditures reported by the district.

Rescinded projects will have the entire pupil count that had been assigned to the project returned to the district's baseline eligibility. Projects that are reduced to costs incurred will have the pupils not assigned to the amount reported on the expenditure reports returned to the district's baseline eligibility. To determine the number of students to be returned to the district's baseline eligibility, the project's grant amount (both district and State contribution), exclusive of site acquisition and development costs, will be divided by the number of students applied towards the project to obtain a dollar amount applied to each student. The amount reported by the district on the expenditure reports, exclusive of site acquisition and development costs will be divided by the dollar amount applied to each student to produce the number of students assigned to the project.

The difference between the pupils originally assigned to the project less the number of students assigned to the project's total expenditures is the number of pupils added back to the district's baseline eligibility. Refer to the example below for a sample calculation:

**Project Totals:**

Total Grant Amount (district and State share): \$300,000.00

Number of Pupils Assigned: 40

Total Reported on Expenditure Reports: \$100,000.00

**Calculations:**

$\frac{\text{Total Grant Amount}}{\text{Number of Pupils Assigned}}$	=	Grant Amount Per Pupil
$\frac{\$300,000.00}{40}$	=	\$7,500.00
$\frac{\text{Total Reported on Expenditure Reports}}{\text{Grant Amount Per Pupil}}$	=	Number of Pupils Assigned to the reduced SFP project
$\frac{\$100,000.00}{7,500.00}$	=	13.3 Pupils Assigned to the SFP Project*
Pupils Assigned to Total Grant minus Pupils Assigned to the reduced project	=	Pupils added back to baseline
$40 - 14$	=	26 Pupils added back to district's baseline eligibility

\*  $\$100,000.00 / \$7,500 = 13\frac{1}{3}$  pupils; however, pupils applied to a project must be rounded up to the next whole number.

If the audit staff has determined that substantial progress has been made, the audit staff will take the following steps:

- Send a letter to the district indicating that substantial progress has been verified.
- File the Substantial Progress Checklist pending completion and/or receipt of the final Form SAB 50-06 and Detailed Listing of Project Expenditures, at which time an Expenditure Audit (per Regulation Section 1859.106) may be performed.

## Section 3 - Expenditure Audit

### 3.1 EXPENDITURE AUDIT REPORTING REQUIREMENTS

School districts are required to submit a Form SAB 50-06 and a Detailed Listing of Project Expenditures one year after receiving the initial fund release for the project. Subsequent expenditure reports are due annually until the project is complete (Regulation Section 1859.104(a)).

Ten months after issuing a project's initial fund release, audit staff will notify the district by letter that an expenditure report is due and must be submitted within one year of the project's initial fund release date. If the district has not submitted an expenditure report within the one-year time period, audit staff will notify the district that it must submit a Form SAB 50-06 and Detailed Listing of Project Expenditures within 60 days. If the district does not submit the Form SAB 50-06 and Detailed Listing of Project Expenditures, audit staff will prepare a board item to notify the SAB that the district has not complied with Regulation Section 1859.104.

If the district has complied with the expenditure reporting requirements, the audit staff will track fund release dates and district expenditure report dates to determine when projects are ready for the Final Expenditure Audit. A project is placed on the expenditure audit workload list when the project is complete. A project is complete when one of the following occurs:

- 1) The final Form SAB 50-06 indicating 100% of the project is complete, the Detailed Listing of Project Expenditures, and the notice of completion date are submitted by the district; or
- 2) Three years for an elementary (grades K-6) school project, or 4 years for a middle school (grades 7-8) or high school (grades 9-12) project, have elapsed since the date of the final fund release pursuant to Regulation Section 1859.104(a)(1)(B).

The OPSC has two years after completion to commence the final expenditure audit. Once the district is notified that an expenditure audit is started, the audit staff has 6 months to complete the final expenditure audit, unless additional information requested from the district has not been received. If the audit staff does not begin the final expenditure audit within two years of receiving the final expenditure report, or if the final expenditure audit is not complete within 6 months of notifying the district that an expenditure audit is started, no expenditure audit will be performed and all expenditures reported shall be deemed appropriate (see Regulation Section 1859.106).

### **3.2 PRELIMINARY EXPENDITURE AUDIT**

All Expenditure Reports will be subject to an initial expenditure audit prior to 100 percent completion that will consist of a review of the Form SAB 50-06 and Detailed Listing of Project Expenditures to ensure that:

- Expenditures are reported in the proper cost categories and that they appear reasonable.
- The form is filled out correctly (i.e. form signed by the district representative; correct application number).
- The “percent completed” box is filled in.
- There is a date construction actually began.
- The Notice of Completion of project is provided (if applicable).
- Each project cost reported includes the warrant date, vendor name, warrant number, warrant amount and a brief description for each expenditure.

If the Expenditure Report and Detailed Listing of Project Expenditures are filled out correctly and reported expenditures appear to be eligible for State funding, the project will be tracked until 100 percent completion. If the expenditures reported do not agree with the supporting documentation or if the expenditures are considered ineligible, the audit staff may conduct a more thorough in-depth examination of the project. Audit staff will notify the district if the Expenditure Report or Detailed Listing of Project Expenditures is unacceptable or incomplete.

### **3.3 PRELIMINARY IN-DEPTH EXPENDITURE AUDIT**

Some of the preliminary Expenditure Reports (Forms SAB 50-06) will be subject to a Preliminary In-Depth Expenditure Audit that will consist of a more detailed examination of the expenditures reported on the Detailed Listing of Project Expenditures. This will be accomplished by requiring districts to submit documentation as appropriate; the audit staff also has discretion to visit the school site to verify the district's claims. Procedures used to conduct Preliminary In-Depth Expenditure Audits will be similar to those procedures used to conduct In-Depth Final Expenditure Audits (see Section 3.5 - In-Depth Final Expenditure Audits). Please see sections 3.7, 3.7.1 and 3.8 for more detail on eligible and ineligible SFP expenditures.

### **3.4 FINAL EXPENDITURE AUDIT**

When the project is complete (as defined in Section 3.1 - Expenditure Audit Reporting Requirements), a final expenditure audit must be initiated within two years. The Final Expenditure Audit shall consist of a review similar to that performed during the Preliminary Expenditure Audit (see section 3.2 - Preliminary Expenditure Audit). Understandably, the Final Expenditure Audit will usually encompass more than the Preliminary Expenditure Audit, as all project expenditures should be reported at this time and available for review. The project expenditures are reviewed to ensure that funds were expended on eligible items (see Sections 3.7, 3.7.1 and 3.8 for more detail on eligible and ineligible SFP expenditures).

### **3.5 IN-DEPTH FINAL EXPENDITURE AUDIT**

A certain percentage of projects will be subject to an In-Depth Final Expenditure Audit that will consist of a more detailed examination of the expenditures reported on the Detailed Listing of Project Expenditures. In-Depth Final Expenditure Audits will also be performed when patterns of omissions, misrepresentations or errors are identified. This will be accomplished by requiring districts to submit documentation as appropriate, such as the project cost estimate, contracts related to inspection, construction tests, architect agreement, construction, etc., or other supporting documentation that will substantiate the figures provided on the Form SAB 50-06 and Detailed Listing of Project Expenditures. The audit staff has discretion to visit the school site to verify the district's claims. Please see sections 3.7, 3.7.1 and 3.8 for more detail on eligible and ineligible SFP expenditures.

Modernization projects will be reviewed to assure that modernization funds are not being used to increase the new building area except in the case of replacement area of like kind or if required by the federal Americans with Disabilities Act (ADA) or by the DSA handicapped access requirements. Modernization projects will also be reviewed to assure that modernization funds are not being used for site costs with the exception of replacement, repair or additions to existing site development. Also, the audit review will establish that the removal of hazardous or solid waste costs, established by the DTSC, did not exceed 10 percent of the combined adjusted grant and the district matching share for the project. Lastly, if the modernization funding grant was used to modernize leased facilities, audit review will verify that it was used only for work on facilities owned by another school district or county superintendent (Regulation Section 1859.79.2).

In addition, the audit staff will verify for the current year (the year in which the final expenditure audit takes place) that the district deposited at least 3% of its general fund (of which an amount equal to ½% of the district's general fund can be the district's contribution to its deferred maintenance fund) into the Routine Restricted Maintenance Account (Education Code Section 17070.75(b)). Audit staff will also review bid packages and other documentation to ensure:

- The district competitively bid the construction contracts.
- The district met all relevant Disabled Veteran Business Enterprise (DVBE) requirements.
- The district used the Qualifications Appraisal standards, as outlined in Government Contract Code Section 4525, when contracting with the architect, engineers, site surveyors, inspectors, construction testers, etc.
- The State's prevailing wage requirements were met.
- The district complied with the State's Public Contract Code requirements governing Force Account labor.

### **3.6 IN-DEPTH FINAL EXPENDITURE AUDIT FOR SITE PURCHASES**

New construction projects may be eligible for site acquisition funds under the SFP. For projects that receive funds for a site purchase, audit review will include the verification and examination of site expenditures and a determination that the site grant was appropriate and meets provisions set forth in Regulation Sections 1859.74, 1859.74.1, and if applicable, 1859.74.2 and 1859.75.1. Projects initially approved under the LPP for planning and/or site and later converted to SFP projects will be audited using the SFP guidelines.

For all sites requiring DTSC review, the audit staff will obtain invoices from the district in order to separate Remedial Action Plan (RAP) costs from the DTSC fees reported for the Phase One Environmental Site Assessment (POESA) and the Preliminary Environmental Assessment (PEA), if applicable. The RAP costs are distinct from the POESA and PEA costs, and are not considered part of the project's "cap" established by the SAB for site cleanup.

When an "Additional Grant for Hazardous Waste Removal" (per Regulation Section 1859.74.2) is granted to a project, the expenditures reported by the district for toxics remediation work will be examined for compliance with Regulation Section 1859.75.1(b)(1) as part of the SFP final expenditure audit. The expenditure audit may result in an increase/decrease of the additional grant amount for hazardous material removal, remediation costs, and DTSC oversight fees pursuant to Regulation Section 1859.74.2 up to the "cap" (see regulation section 1859.74.1) amount determined when the apportionment was made.



Districts will be eligible for approved hazardous material removal work and the associated DTSC oversight fees up to the difference between the "appraised as a clean site" value for the site and actual price paid (see regulation section 1859.74.2). For an environmental hardship project, the "appraised as a clean site" value is referred to as the "cap", which is defined in Regulation Section 1859.74.1 as a site "appraised as if it were a clean site, safe of all toxic contaminants in accordance with CDE guidelines. . .". The "clean site" appraisal can only include proposed site improvements needed to grade the site to construction readiness excluding the foundation, paving, or proposed utilities stubbed to the site. The example below illustrates how the district can use the difference between the "appraised as a clean site" value and actual price of property to fund approvable toxics remediation and associated DTSC oversight fees:

Appraised as a Clean Site:	\$2,000,000.00	Actual Price Paid:	\$1,500,000.00
		Toxics Remediation:	400,000.00
		DTSC Oversight Fee:	100,000.00
Total "Cap"	<u>\$2,000,000.00</u>		<u>\$2,000,000.00</u>

In order to ensure compliance with the requirements of Regulation Section 1859.74.2 and to ensure that all costs reported for this grant were indeed for hazardous waste removal, the audit staff will obtain invoices from the district for all costs reported for any Additional Grants for Hazardous Waste Removal. Additionally, for both Hazardous Waste Removal and Environmental Hardship Grants, the audit staff will verify that all fees and cleanup costs are related to the site for which the expenditures are being reviewed.

Relocation assistance expenditures will also be audited based on criteria set forth in Title 25, California Code of Regulations Section 6000, et seq. Additional documentation such as contracts, invoices, appraisal reports, court documents, legal contracts, legal billings, etc., will be requested from the district and a thorough review of these expenditures will be performed. The relocation expenditures are approvable if they are reasonable and necessary for purchasing fixtures and equipment, personal property, new machinery/equipment and the installation of any improvements at the replacement residence or business location of the displaced tenants and/or property owners as stated in Regulation Section 1859.74(a)(1) (please see Sections 3.7, 3.7.1 and 3.8 for more detail).

For projects that did not proceed to the adjusted grant phase within 18 months of the fund release for Separate Site (12 months from the apportionment date for Environmental Hardship, unless time extensions were approved by the SAB), an item will be presented at the next available SAB meeting notifying the board that the district did not request an adjusted grant. A Final Expenditure Audit will commence within three years (for an elementary school project) and four years (for a middle or high school project) of the final fund release date.

### **3.7 ALLOWABLE EXPENDITURES UNDER THE SFP - GENERAL**

The statutory language governing the SFP apportionments is very broad in scope for both new construction and modernization projects. Statutory language for new construction, such as "a grant for new construction may be used for any and all costs to adequately house new pupils..." and for SFP modernization, such as "a modernization apportionment may be used for an improvement to extend the useful life of or to enhance the physical environment of the school..." indicate that there is a lack of defined cost allowances when determining eligibility of some project expenditures. This section, Section 3.7.1 and Section 3.8 will offer guidelines for determination of eligible expenditures. As a rule of thumb, any project cost will be allowed, with limitations in some cases, that can reasonably be attributed to the project that is in accordance with regulation and law.

Education Code section 17072.35 provides direction relative to what new construction grants may be used for and states:

A grant for new construction may be used for any and all costs necessary to adequately house new pupils in any approved project, and those costs may only include the cost of design, engineering, testing, inspection, plan checking, construction management, site acquisition and development, demolition, construction, acquisition and installation of portable classrooms, landscaping, necessary utility costs, utility connections and other fees, equipment including telecommunication equipment to increase school security, furnishings, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A grant for new construction may also be used to acquire an existing government or privately owned building, or a privately financed school building, and for the necessary costs of converting the government or privately owned building for public school use.

Regulations Section 1859.77.2 and other pertinent regulations contained in Article 8 (of the SFP regulations) provide further specificity relative to appropriate uses of SFP new construction funding that should be referred to during the course of a final expenditure audit.

Education Code Section 17074.25 provides guidelines relative to eligible SFP modernization expenditures and states:

A modernization apportionment may be used for an improvement to extend the useful life of, or to enhance the physical environment of, the school. The improvement may only include the cost of design, engineering, testing, inspection, plan checking, construction management, demolition, construction, the replacement of portable classrooms, necessary utility costs, utility connection and other fees, the purchase and installation of air-conditioning equipment and insulation materials and related costs, furniture and equipment, including telecommunication equipment to increase school security, fire safety improvements, playground safety improvements, the identification, assessment,

or abatement of hazardous asbestos, seismic safety improvements, and the upgrading of electrical systems or the wiring or cabling of classrooms in order to accommodate educational technology. A modernization grant may not be used for costs associated with acquisition and development of real estate or for routine maintenance and repair.

Education Code Section 17074.10(d) also specifies that the Legislature did not intend that modernization funding be used on administrative and overhead costs.

Regulation Section 1859.79.2, as well as other regulations contained in Article 8, New Construction and Modernization Grant Determinations), provides further specificity relative to appropriate uses of SFP modernization funding that should be referred to during the course of a final expenditure audit.

### **3.7.1 ALLOWABLE EXPENDITURES UNDER THE SFP - SPECIFIC GUIDELINES**

Districts should be aware that the SFP is not like the Lease-Purchase Program with set fee schedules and allowances. The SFP, with few exceptions, has no limitations on the fees associated with architects or construction managers, etc. Also, there are no set allowances for project components other than as noted in Section 3.7.

The following general guidelines shall be utilized in reviewing an SFP new construction or modernization project (assumes non-financial hardship project):

- 1) **SITE COSTS** (not applicable to modernization):
  - A) **Purchase Price of Property** - This is an allowable expenditure provided that the site was not previously funded under the Lease-Purchase Program, and the expenditure reported is the lesser of the appraised value (must be a valid appraisal that was submitted within six month of a complete SFP funding application) or actual purchase price. The costs for toxics cleanup and removal as well as DTSC oversight fees associated with the cleanup are allowable expenditures of the grant. Excess DTSC costs and costs for Hazardous Waste Removal beyond the cap as established by Regulation Section 1859.74.2 and 1859.75.1 are allowable costs out of the grant; however, no additional apportionments will be made to fund these costs.
  - B) **Appraisal Fees** - Allowable expenditures.
  - C) **Escrow Fees** - Allowable expenditures.
  - D) **Survey Costs** - Allowable expenditures.
  - E) **DTSC Phase One Environmental Assessment Fees and Preliminary Endangerment Assessment Fees** - Allowable expenditures.

- F) Relocation Assistance - Allowable expenditures as long as expenditures conform to Title 25, California Code of Regulations, Section 6000, et. seq. Any reasonable and necessary relocation costs for purchasing fixtures and equipment, personal property, new machinery/equipment and the installation of any improvements at the replacement residence or business location may be included as eligible relocation expenditures. Specifically, these costs include: rental assistance; last resort housing costs; down-payment assistance; any costs the district is required to pay through a court finding such as goodwill, cost of land, etc.; moving expenses; "in-lieu" of business expenses; business moving costs; furniture and equipment costs if the business is unable to relocate; and reasonable relocation consultant fees.
- G) Development of Phase One Environmental Assessment and Preliminary Endangerment Assessments- Allowable expenditure, no limitation.
- H) Legal Fees Associated with Securing a Site - Allowable expenditure.

2) PLANNING COSTS

- A) Architect's Fee for Plans - Allowable expenditure.
- B) DSA Plan Check Fee - Allowable expenditure.
- C) CDE Plan Check Fee - Allowable expenditure.
- D) Energy Analysis Fee - Allowable expenditure.
- E) Preliminary Site Tests - Allowable expenditure.
- F) Consultant Fees - Allowable expenditure, as long as expenditures are related to the project.
- G) Advertising for Construction Bids - Allowable expenditure.

3) CONSTRUCTION COSTS

- A) Utility Services - Allowable expenditure (see Regulation Section 1859.76(c) for more information).
- B) Off-Site Development - Allowable expenditure (see Regulation Section 1859.76(b) for more information).
- C) Service Site Development - Allowable expenditure (see Regulation Section 1859.76(a) for more information).
- D) General Site Development - Allowable expenditure.
- E) Building Construction - Eligible expenditure.
- F) Modernization Costs - Eligible expenditures including the following, but subject to the limitations in section 3.8 - Ineligible SFP Expenditures, items C through F:
  - 1) Any new building area included in a modernization project that replaces "like kind" area.
  - 2) New site development expenditures that are for replacement, repair or additions to existing site development work.
  - 3) Removal of hazardous waste that the DTSC has declared safe that does not exceed ten percent of the total modernization project cost.
  - 4) Any work on leased facilities owned by another district or county superintendent.
- G) Construction Management Fees - Allowable expenditure.

- H) Demolition Costs - Allowable expenditure if the cost is attributable to replacement of "like kind" building area for modernization projects (see Regulation Section 1859.79.2(a)), no cost limitations for new construction projects.
- I) Force Account Labor - Allowable if it complies with the Public Contract Code and is specific to the project (please note: may also be a planning cost).
- J) Interim Housing- Allowable expenditures with no cost limitations for modernization projects, ineligible for new construction projects.
- K) Unconventional Energy - Allowable expenditure.
- L) Construction Tests - Allowable expenditure.
- M) Inspections - Allowable expenditure.
- N) Furniture and Equipment - Allowable expenditure.
- O) Construction Supervision/Security - Allowable expenditure.
- P) Legal costs - Allowable if directly attributable to project.

### **3.8 INELIGIBLE SFP EXPENDITURES**

The following costs shall be disallowed during an SFP final expenditure audit:

- A) Administrative and overhead costs.
- B) District force account labor that does not comply with the Public Contract Code.
- C) Modernization expenditures for:
  - 1) New building area that does not replace building area of "like kind."
  - 2) New site development modernization that is not for replacement, repair or additions to existing site development work.
  - 3) Removal of hazardous waste from a modernization project that the DTSC has declared unsafe that exceeds ten percent of the total modernization apportionment.
  - 4) Costs on leased facilities not owned by another district or county superintendent.
  - 5) Acquisition and development of real estate.
  - 6) Demolition costs not attributable to replacement of "like kind" building area.
- D) Any expenditure that cannot be reasonably attributed to a project.
- E) Relocation costs that do not conform to Title 25, California Code of Regulations, Section 6000, et. seq. (see Regulation Section 1859.74(a)(1)).
- F) Expenditures associated with a "use of grant" (see Regulation Section 1859.77.2) SAB approval that were not constructed as specified in the original approval.
- G) Campus supervision that goes beyond construction site security (viewed as campus security and administrative overhead).
- H) Financial Hardship project expenditures that exceed the district's grant eligibility for the project plus interest earned on State funds.
- I) New construction expenditures associated with interim housing.

- J) Relocation costs not considered reasonable such as: goodwill that is not court ordered; the difference between the salvage value and new value of furniture and equipment costs, if the business vendor retains the furniture and equipment.
- K) Legal costs not directly attributable to the project.
- L) Expenditures associated with facility hardship SAB approvals that were not constructed as originally approved (see Regulation Section 1859.82).

### **3.9 EXPENDITURE AUDIT RESPONSE**

Once the preliminary and final expenditure audits have been completed, the audit staff will notify the school district of its findings and as appropriate prepare a board item or issue an administrative journal recommending that the project be closed. Notification to the district will take the form of an Expenditure Review letter. In addition to reporting any audit findings, this letter will inform the district that the audit staff will prepare an SAB item for the next available board or an administrative journal to close the project. The item may request an increase or decrease of the project's SFP grant for various site costs and/or a reduction in the SFP grant for other project costs considered ineligible (per Regulation Section 1859.106).

The district will have 60 days to respond to the audit staff's findings. If additional documentation is submitted within the 60 days, the audit staff will revise the audit findings, if necessary, and repeat the process of sending the audit findings to the district. If the district does not respond within 60 days or accepts the audit staff's findings, an item will be presented at the next available board or an administrative journal will be prepared to close the project.

### **3.10 PROJECT SAVINGS**

The Final Expenditure Audit will include a review of savings declared by the district (see Regulations Section 1859.103 for more detail). Any project savings should be placed in a restricted capital fund (see Education Code Sections 17070.43 and 17070.63c). The district is required to identify any SFP project savings on the final Expenditure Report (Form SAB 50-06, Item 11). Project savings should be equal to total project apportionments, district contribution, and interest earned, less total eligible project expenditures.

During the course of the Final Expenditure Audit, audit staff will request a completed Detailed Listing of Project Expenditures - Savings. The audit staff will verify that any expenditure of project savings has been for high-priority capital facility needs of the district, that the State's share of any savings from a new construction project has been used to meet the district's matching share requirement on another new construction project, or that the State's share of any savings from a modernization project has been used to meet the district's matching share requirement on another modernization project. Verification of expenditure of project savings for high priority capital facility needs

will include reviewing the Detailed Listing of Project Expenditures - Savings for warrant numbers, dates, and descriptions of projects that can reasonably be categorized as high-priority capital facility district projects. The district may be required to submit additional documentation to verify expenditure of project savings. In addition, audit staff reserves the right to look into savings declared on a project at a future date (after the Final Expenditure Audit) .

Savings recognized on a project must be distributed proportionately based on the State's and the district's contributions to the project. For example, for savings of \$100,000.00 on a standard new construction project, \$50,000.00 is the State's share and \$50,000.00 the district's share of the savings. The only exception is for Financial Hardship projects; any savings declared by the district, or determined by the OPSC's audit staff on the Final Expenditure Audit, must be used to reduce the SFP financial hardship grant of that project or other financial hardship projects within the district. The State's portion of savings for a non-financial hardship project must be used to reduce any future financial hardship grant allocated to the district for a period of three years from the date that savings were declared by the district or determined by OPSC Final Expenditure Audit.





# SCHOOL FACILITY PROGRAM (SFP) PROGRAM ACCOUNTABILITY SUBSTANTIAL PROGRESS CHECKLIST

Effective 01/01

Regulation Section 1859.104(b) requires a substantial progress report in the form of a narrative. The progress report is due 18 months from the date any funds were released to the district for the project. This worksheet may be submitted in lieu of providing a narrative. The progress report shall include information regarding the efforts the district has made towards substantial completion of the project.

SCHOOL DISTRICT

APPLICATION NUMBER

SCHOOL NAME

COUNTY

**INSTRUCTIONS** - Check the appropriate box (es) if the activities have been completed in each section to identify the criteria by which the district has met the substantial progress requirement.

## SECTION 1 - Progress Report for Separate Site Financial Hardship or Separate Site Environmental Hardship. Refer to Regulation Section 1859.105 (b) or Section 1859.75.1

Acceptable evidence of substantial progress shall be considered met when the district has completed all of the following:

- ☐ Obtained the final appraisal of the site.
- ☐ Completed all California Environmental Quality Act requirements.
- ☐ Obtained final approval of the site by the California Department of Education.
- ☐ Obtained final escrow instructions or evidence the district has filed condemnation proceedings and intends to request an order of possession of the site.

## SECTION 2 - Progress Report for Adjusted Grant. Refer to Regulation Section 1859.105 (a).

Acceptable evidence of substantial progress shall be considered met when the District has completed any of the following:

- ☐ At least 75 percent of all site development work that is necessary prior to building construction activity is complete.
- ☐ At least 90 percent of the building construction activities are under contract, unless the building construction activities are delayed as a result of necessary site development work.
- ☐ All construction activities are at least 50 percent complete.
- ☐ Other evidence satisfactory to the State Allocation Board of circumstances beyond the control of the district that precludes substantial progress being made. (Attach a narrative explanation and supporting documentation).

The Office of Public School Construction reserves the right to request copies of supporting evidence as well as conduct a site visit of this project.

*I certify, as the District Representative, that the information reported on this checklist is true and correct.*

SIGNATURE OF DISTRICT REPRESENTATIVE

DATE

TYPED NAME

TYPED TITLE

E-MAIL

PHONE NUMBER

PREPARER'S NAME

PREPARER'S TITLE

E-MAIL

PHONE NUMBER



# SCHOOL FACILITY PROGRAM (SFP) APPLICATION SUBMITTAL

Effective August 2000

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*The following items are necessary for a SFP application package to be deemed complete by the Office of Public School Construction (OPSC):*

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## **NEW CONSTRUCTION**

### **ELIGIBILITY DETERMINATION REQUEST**

- Completed Forms: "Enrollment Certification/Projection", SAB 50-01; "Existing School Building Capacity", SAB 50-02; "Eligibility Determination", SAB 50-03.
- If applicable, a copy of the study supporting the District's yield factor, when higher than the statewide average student yield factor.
- Completed site diagrams and a summary of each school site in the district that details the gross classroom inventory and an explanation for any classroom excluded pursuant to Regulation Section 1859.32. The "OPSC Site Analysis Worksheet for New Construction (7/00)" may be used in place of this summary to meet this requirement. In addition, a district facility summary that supports the information contained on Form SAB 50-02 must be included.

### **FUNDING REQUEST**

- Completed Form: "Application for Funding", SAB 50-04.
- Final Division of State Architect (DSA) approved plans and specifications. Plans and specifications submitted on AutoCAD 14 must include a legend and an index corresponding to the plan sheets.
- Cost Estimate for site development which reflects 100% of the proposed work outlined in Regulation Section 1859.76.
- Appraisal of property to be acquired that is less than six months old and a final escrow closing statement which indicates the agreed upon purchase price of the property unless the district certifies the site is being secured through condemnation proceedings. In the case of condemnation, the final court order shall be utilized in lieu of the appraisal.
- Approval of site and plans from the California Department of Education (CDE)

## **MODERNIZATION**

### **ELIGIBILITY DETERMINATION REQUEST**

- Completed Form: "Eligibility Determination", SAB 50-03.
- A site diagram or fire drill map of the applicable school. The diagram/map must show the ages\* and number of all classrooms in accordance with the Gross Classroom Inventory, Regulation Section 1859.31. If Option B square footage choice is selected, the diagram/map must show the ages\* and approximate dimensions or square footage of all buildings on the site.

### **FUNDING REQUEST**

- Completed Form: "Application for Funding", SAB 50-04".
- Final DSA approved plans and specifications. Plans and specifications submitted on AutoCAD 14 must include a legend and an index corresponding to the plan sheets.
- Construction Cost Estimate signed by the architect or design professional.
- CDE Approval of plans.

\* The starting date to determine the age of a classroom is the date the plans were approved by DSA plus 18 months.

